

Memorandum

To: Tax reporters
From: Carol Guthrie for Senator Max Baucus
Re: IRS electronic fraud detection program
Date: Wednesday, June 28, 2006

You may be aware of a statement from IRS Commissioner Mark W. Everson this afternoon regarding problems with the IRS's electronic fraud detection system (EFDS). U.S. Senator Max Baucus, Ranking Member of the Senate Committee on Finance, raised the issue of the EFDS yesterday at the confirmation hearing of Eric Solomon to be Deputy Treasury Secretary for Tax Policy. Today Commissioner Everson acknowledged that failures surrounding the EFDS resulted in substantial distribution of fraudulent refunds. Losses and contractor expenses may have totaled more than \$300 million. Following is a statement from Senator Baucus in response to Commissioner Everson's comments today.

“I certainly hope this disclosure from Commissioner Everson marks the beginning of a new day at IRS. Not only does IRS need to get the best fraud detection system up and running for 2007 and recoup these fraudulent refunds, but they need to end this pattern of waste and complacency that costs honest taxpayers so much money. Every year in this country, \$345 billion in legally owed taxes already go uncollected. We certainly don't have room for IRS mismanagement to create an even bigger tax gap.”

The Finance Committee was not originally informed of the EFDS breakdown by IRS officials, but learned of it while investigating a complaint from the National Taxpayer Advocate that the IRS was freezing taxpayer refunds owed to lower-income Americans without proper notification. Subsequently, Committee staff demanded briefings on the problem from TIGTA and the IRS. An investigative report on the matter is due for completion by TIGTA soon. Please contact me at 202-224-6769 if you have further questions.